



**PARADISE VALLEY
ESTATES**

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STATEWIDE PROGRAM OFFICE
FOR ADULT AND SENIOR CARE LICENSING

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
DBA PARADISE VALLEY ESTATES**

STATE OF CALIFORNIA DEPARTMENT OF SOCIAL SERVICE

ANNUAL REPORT

CONTINUING CARE LICENSING DIVISION

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014



HANSEN HUNTER & CO. P.C.

Certified Public Accountants

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	480
[2]	Number at end of fiscal year	519
[3]	Total Lines 1 and 2	999
[4]	Multiply Line 3 by ".50" and enter result on Line 5	x.50
[5]	Mean number of continuing care residents	500
All Residents		
[6]	Number at beginning fiscal year	496
[7]	Number at end of fiscal year	547
[8]	Total Lines 6 and 7	1,043
[9]	Multiply Line 8 by ".50" and enter result on Line 10	x.50
[10]	Mean number of <i>all</i> residents	522
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	95.79%

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses	\$28,067,454
[a] Depreciation	\$3,146,558
[b] Debt Service (Interest Only)	\$1,328,343
[2] Subtotal (add Line 1a and 1b)	\$4,474,901
[3] Subtract Line 2 from Line 1 and enter result	\$23,592,553
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	95.79%
[5] Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)	\$22,599,307
	x .001
[6] Total Amount Due (multiply Line 5 by .001)	\$22,599

PROVIDER: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
COMMUNITY: PARADISE VALLEY ESTATES



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ESTATES

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STATEWIDE PROGRAM OFFICE
FOR ADULT AND SENIOR CARE LICENSING

April 9, 2015

State of California
Continuing Care Contracts Branch
California Department of Social Services
744 P. Street, M.S. 10-90
Sacramento, California 95814

This Certification Notice is submitted by the Northern California Retired Officers Community, dba Paradise Valley Estates; to The State of California, Community Care Licensing Division, Continuing Care Contracts Branch, pursuant to the requirements of the Continuing Care Contract Annual Reserve Report, for the year ended December 31, 2014.

To the best of my knowledge, after a review of the enclosed information I certify the following to be true, complete and correct:

1. The Annual Report is correct.
2. Each continuing care contract form in use or offered for new residents has been approved by the Department.
3. The required reserves are being maintained.

Authorized Representative



Jim Mertz
Chief Executive Officer



CERTIFICATE OF LIABILITY INSURANCE

NORTCAL-03 VSMALLWOOD

DATE (MM/DD/YYYY)
4/8/2015

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER License # 0797015 Lewis & Assoc. Ins. Brokers, Inc. 700 W. Center Avenue Visalia, CA 93291	CONTACT NAME: Vicki Smallwood	
	PHONE (A/C, No, Ext): (559) 733-7272 FAX (A/C, No): (559) 733-5612	
	E-MAIL ADDRESS: vickis@since1927.com	
INSURED Northern California Retired Officers Community 2600 Estates Drive Fairfield, CA 94533	INSURER(S) AFFORDING COVERAGE	NAIC #
	INSURER A: Health Care Industry Liability Reciprocal Insurance Company, RRG	
	INSURER B: Nationwide Mutual	23787
	INSURER C: Ironshore Specialty Ins. Co	
	INSURER D: RSUI Indemnity	
	INSURER E:	
	INSURER F:	

COVERAGES

CERTIFICATE NUMBER:

REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC OTHER:		HCA-CA02-0005-OC-08	12/01/2014	12/01/2015	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ Prof. Liability \$ 1,000,000
B	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input checked="" type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS <input checked="" type="checkbox"/> Comp Deductible \$250 <input checked="" type="checkbox"/> Collision Ded \$500		ACBPA3006839609	10/01/2014	10/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
C	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$		002220500	12/01/2014	12/01/2015	EACH OCCURRENCE \$ 10,000,000 AGGREGATE \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y / N <input type="checkbox"/> N / A				PER STATUTE OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
D	Directors and Office		NHP659587	10/15/2014	10/15/2017	Limits 2,000,000
B	Crime		ACPCPP3006839609	10/01/2014	10/01/2015	Employee Dishonesty 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

CERTIFICATE HOLDER

CANCELLATION

Northern California Retired Officers Community dba: Paradise Valley Estates 2600 Estates Drive Fairfield, CA 94533	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE

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FOR ADULT AND SENIOR CARE LICENSING

**PARADISE VALLEY
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**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
DBA PARADISE VALLEY ESTATES**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	7



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

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STATEWIDE PROGRAM OFFICE
FOR ADULT AND SENIOR CARE LICENSING

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northern California Retired Officers Community
dba Paradise Valley Estates
Fairfield, California

We have audited the accompanying financial statements of Northern California Retired Officers Community, dba Paradise Valley Estates (a California non-profit public benefit Corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern California Retired Officers Community, dba Paradise Valley Estates, as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hansen Hunter & Co. P.C.

March 30, 2015

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 5,157,787	\$ 3,366,312
Accounts receivable	616,141	381,312
Entrance fees receivable	2,109,000	2,001,003
Assets whose use is limited	16,520,572	13,158,716
Investments	33,795,834	31,914,158
Prepaid expenses	1,162,927	446,196
Inventory	135,917	110,173
Pledge receivable	760,322	-
Deposits	28,354	28,354
Property and equipment, net	65,289,516	65,389,174
Intangible assets, net	14,322	19,866
Deferred financing costs, net	1,112,280	1,292,149
Total assets	\$ 126,702,972	\$ 118,107,413
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 717,841	\$ 1,236,126
Accrued personnel expenses	797,542	565,588
Accrued compensated annual leave	284,745	238,006
Accrued interest	675,978	697,228
Other accrued liabilities	831,940	654,650
Revenue bonds	41,931,917	44,780,555
Charitable gift annuities	90,006	144,204
Refundable entrance fees	7,196,605	7,296,973
Unearned entrance fees	52,600,917	47,292,526
Total liabilities	105,127,491	102,905,856
Net assets		
Unrestricted		
Undesignated net assets	16,466,581	12,360,866
Board designated net assets	4,098,188	2,598,188
Total unrestricted net assets	20,564,769	14,959,054
Temporarily restricted net assets	1,010,712	242,503
Total net assets	21,575,481	15,201,557
Total liabilities and net assets	\$ 126,702,972	\$ 118,107,413

The accompanying notes are an integral part of these financial statements.

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2014	2013
Change in unrestricted net assets:		
Revenues		
Resident services	\$ 15,185,361	\$ 14,121,572
Health services	6,820,078	6,367,575
Amortization of entrance fees	7,175,039	6,029,895
Investment income	2,801,334	4,046,023
Contributions	715,161	-
Other income	852,832	375,421
	<u>33,549,805</u>	<u>30,940,486</u>
Net assets released – restricted purpose met	<u>123,364</u>	<u>92,544</u>
Total unrestricted revenues	<u>33,673,169</u>	<u>31,033,030</u>
Expenses		
Resident services	5,596,833	5,184,957
Utilities	1,874,421	1,737,097
Dining services	4,616,366	4,387,676
Health services	6,050,184	5,939,495
General and administrative	4,689,300	4,350,047
Depreciation	3,146,558	2,913,783
Amortization	185,412	233,415
Interest	1,328,343	1,776,450
Other expenses	580,037	1,396,055
Total expenses	<u>28,067,454</u>	<u>27,918,975</u>
Change in unrestricted net assets	<u>5,605,715</u>	<u>3,114,055</u>
Change in temporarily restricted net assets		
Temporarily restricted contributions	891,573	160,590
Net assets released – restricted purpose met	<u>(123,364)</u>	<u>(92,544)</u>
Change in temporarily restricted net assets	<u>768,209</u>	<u>68,046</u>
Change in total net assets	<u>6,373,924</u>	<u>3,182,101</u>
Net assets, beginning of year	<u>15,201,557</u>	<u>12,019,456</u>
Net assets, end of year	<u>\$ 21,575,481</u>	<u>\$ 15,201,557</u>

The accompanying notes are an integral part of these financial statements.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	Years Ended December 31,	
	2014	2013
Cash flows from operating activities		
Cash received from residents	\$ 22,573,442	\$ 21,123,972
Unrestricted contributions	380,000	-
Unearned entrance fees received from residents	13,040,384	10,767,664
Investment income received	1,421,439	1,540,788
Interest paid	(1,823,231)	(2,428,831)
Cash paid to suppliers and employees	(24,127,171)	(21,460,224)
Net cash provided by operating activities	<u>11,464,863</u>	<u>9,543,369</u>
Cash flows from investing activities		
Net change in assets whose use is limited	(3,361,856)	(1,718,428)
Purchase and construction of property and equipment	(3,081,647)	(2,728,890)
Net purchase of investments	(501,781)	(4,259,941)
Net cash used in investing activities	<u>(6,945,284)</u>	<u>(8,707,259)</u>
Cash flows from financing activities		
Proceeds from contributions limited to long-term use	466,412	160,590
Payoff of Series 2002 revenue bonds	-	(36,360,000)
Proceeds from Series 2013 revenue bonds	-	35,426,298
Payments on revenue bonds	(2,375,000)	(425,000)
Financing costs paid	-	(1,348,447)
Refundable entrance fees received	434,006	1,441,573
Refund of refundable entrance fees	(534,375)	(283,241)
Refund of unearned entrance fees	(664,949)	-
Charitable gift annuity payments	(54,198)	(58,280)
Net cash used in financing activities	<u>(2,728,104)</u>	<u>(1,446,507)</u>
Net change in cash and cash equivalents	1,791,475	(610,397)
Cash and cash equivalents, beginning of year	<u>3,366,312</u>	<u>3,976,709</u>
Cash and cash equivalents, end of year	<u>\$ 5,157,787</u>	<u>\$ 3,366,312</u>

The accompanying notes are an integral part of these financial statements.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash
(Continued)

	Years Ended December 31,	
	2014	2013
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 6,373,924	\$ 3,182,101
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of earned entrance fees	(7,175,039)	(6,029,895)
Amortization of intangible assets and deferred financing costs	185,412	233,415
Depreciation of property and equipment	3,146,558	2,913,783
Unearned entrance fees received	13,040,384	10,767,664
Unrealized gain on investments	(1,379,895)	(2,505,235)
Contributions restricted to long-term use	(891,573)	(160,590)
Loss on sale of property and equipment	34,747	3,393
Loss on write-off of old financing costs	-	1,089,103
Loss on write-off unamortized Series 2002 bond discount	-	182,507
Amortization of bond premium	(473,638)	(365,651)
(Increase) decrease in assets:		
Accounts receivable	(234,829)	5,894
Prepaid expenses	(716,731)	(204,699)
Inventory	(25,744)	4,370
Unrestricted pledge receivable	(335,161)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(518,285)	347,815
Accrued personnel expenses	231,954	98,550
Accrued compensated annual leave	46,739	14,064
Accrued interest	(21,250)	(286,730)
Other accrued liabilities	177,290	253,510
Net cash provided by operating activities	\$ 11,464,863	\$ 9,543,369

The accompanying notes are an integral part of these financial statements.

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Business

The Northern California Retired Officers Community (NCROC), located in Fairfield, California, is a California non-profit public benefit corporation organized to provide housing facilities and related services to primarily retired commissioned officers of the Uniformed Services and their spouses.

The facility consists of 327 housing units, public spaces and amenities, a 40-room assisted living facility and an 88-bed health service facility with 28 beds licensed for assisted living and 60 beds licensed as a skilled nursing facility.

NCROC operates primarily under the "continuing care" concept in which residents enter into a residential contract that generally provides for a specified entrance fee, with certain options for refunds, and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of NCROC for life. Residents are also entitled to certain health care services provided in the NCROC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in NCROC.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, other support and expenses during the reporting period. Actual results could differ from those estimates.

Functional expenses

The expenses of NCROC are presented according to their functional classification in the accompanying statements of activities. There were no fundraising costs incurred for the years ending December 31, 2014 and 2013.

Cash and cash equivalents

NCROC considers all highly liquid instruments, with a maturity of three months or less at the time of purchase, to be cash equivalents, excluding assets whose use is limited. The carrying amount reported in the statements of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Accounts receivable

Accounts receivable represent amounts due from residents for deposits, monthly service fees and health service fees. An allowance for doubtful accounts is based upon an analysis of the collectibility of outstanding amounts. Accounts deemed uncollectible are charged against the allowance. Subsequent recoveries of bad debts are credited to the allowance. As of December 31, 2014 and 2013, all accounts were deemed collectible. Accounts receivable balances over 90-days at December 31, 2014 and 2013, were \$37,723 and \$67,675, respectively.

Entrance fees receivable

Entrance fees receivable consist of amounts due from residents. These amounts are supported by a signed continuing care contract, and in some cases, a promissory note. Generally these amounts are satisfied at, or about, the time of initial residency by the contract holder(s). Promissory notes may contain a grace period with respect to interest, but only for a limited time. If the promissory note is extended, a 5% interest rate is assessed.

Assets whose use is limited

Assets whose use is limited at December 31, 2014 and 2013 consist of cash, money market funds and other investments whose use is restricted by donors, the board of directors or the bond agreements. The use of the California Health Facilities Financing Authority Revenue Bonds Series 2013 and Series 2005 assets are legally restricted per the bond agreements. All limited use assets are reported at fair market value.

Investments

Investments consist of long-term certificates of deposit, mutual funds and debt and equity securities recorded at fair value. Equity securities consist of stocks of companies listed with the Securities Exchange Commission.

The fair values for debt securities and equity securities are based upon the quoted market prices at year end. Accordingly, net realized and unrealized gains and losses on debt and equity securities are reflected in the statements of activities.

Inventory

Inventory consists primarily of food and miscellaneous supplies and is stated at the lower of cost (principally using the first-in, first-out method) or market.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment acquisitions in excess of \$2,500 and with an estimated useful life of more than three years are capitalized at historical cost. Depreciation is computed using the straight-line method based upon the following estimated useful lives:

Land improvements	7 to 80 years
Building and improvements	10 to 80 years
Furniture and equipment	3 to 20 years
Vehicles	3 to 10 years

Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of activities.

NCROC evaluates whether events and circumstances have occurred that indicate whether the carrying value of long-lived assets have been impaired. In the event that NCROC determines that impairment has occurred, a write-down to estimated fair value would be recorded. Measurement is based on those assets' estimated fair values as compared to the carrying value. No events have occurred to date that would indicate an impairment of value.

Interest costs incurred on borrowed funds, less investment income earned on unspent borrowed proceeds during the period of construction of long-term assets, are capitalized and amortized over the related assets' estimated useful lives.

Intangible assets

Intangible assets, consisting of marketing costs incurred during the development stage of NCROC, are deferred and amortized over the future periods in which management believes they will be recovered from future revenues. These costs are being amortized on a straight-line basis over a 12-year period, which approximates the average expected residency agreement term. Included in marketing costs are costs related to direct response advertising incurred prior to and during the initial occupancy period of NCROC, and other marketing and promotional costs incurred in connection with acquiring initial continuing care contracts that have been capitalized in accordance with accounting principles generally accepted in the United States of America.

All other costs of advertising, promotion and marketing programs are charged to expense in the year incurred. During 2014 and 2013, NCROC incurred marketing and advertising costs of \$1,483,779 and \$1,426,683, respectively.

Deferred financing costs

Bond issuance costs are amortized over the term of the respective bonds using the effective interest method.

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Bond premium

The bond premium is netted with the related Series 2013 bonds and is amortized over the term of the bonds using the effective interest method.

Refundable and unearned entrance fees

Refundable entrance fees and unearned entrance fees have been recorded as deferred revenue in the statements of financial position. NCROC offers one basic residency agreement (Agreement) with three different refund programs. The differences amongst the Agreement refund programs relate primarily to the amount of entrance fees refundable to the resident (or resident's estate) upon termination of the residency agreement. Under all plans, the resident has a limited time period to cancel the contract and receive a 100% refund of all entrance fees. This cancellation period is five months for contracts signed December 31, 2001 and prior and three months for contracts signed January 1, 2002 or later. Plan "0" provides for a declining refundable amount based on the length of residency and, generally, requires no refund after approximately four and one-half years of residency. Plans "50" and "95" provide for refunds of 50% and 95%, respectively, of entrance fees upon termination of the residency agreement. The amount of refundable entrance fees reflected in the statements of financial position are estimates that are actuarially determined using data available from similar facilities and are based upon residents' life expectancies and projected withdrawals from the facility.

The total liability for the refundable entrance fee contracts was \$7,196,605 and \$7,296,973 at December 31, 2014 and 2013, respectively. As required by the state of California, NCROC has established an escrow account that holds funds for the sole purpose of refunding entrance fees. The escrow balance is included in assets whose use is limited on the statements of financial position and was \$3,459,434 and \$1,845,861 as of December 31, 2014 and 2013, respectively.

Fees paid by the resident upon entering into a residency agreement, net of the portion thereof that is estimated refundable entrance fees, are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. Resident life expectancy is reevaluated annually.

Actual amounts refundable from refundable entrance fees and unearned entrance fees could change significantly from actuarial estimates.

Obligation to provide future services

NCROC annually calculates the present value of the costs of future services and the use of facilities to be provided to current residents and compares that amount to expected resident service income and deferred revenue from unearned entrance fees. The calculation is an actuarially determined amount of future net cash flows, which is based on the present value of cash outflows and inflows (using a discount rate of 5% for 2014 and 2013) and adjusted for certain non-cash items as compared to the balance of unearned entrance fees. This calculation indicates that no net liability for future service to current residents existed at December 31, 2014 and 2013.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Resident services revenue

In addition to the entrance fees paid by the residents of NCROC, the Agreement requires each resident to pay a monthly service fee. The entire monthly service fee is recognized as revenue on a monthly basis. NCROC began offering a new rental contract during 2011 under which residents are not required to pay an entrance fee but they must pay a monthly premium in addition to the monthly service fees.

Financial instruments

NCROC's financial instruments consist of accounts receivable, entrance fees receivable, a pledge receivable, investments, limited use assets, deposits, accounts payable, accrued expenses, charitable gift annuities and revenue bonds. It is management's opinion that NCROC is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

Charitable gift annuities

NCROC has established a program under which donors may setup charitable gift annuities. Under this program, donors can contribute assets to NCROC and in return receive a guaranteed fixed income for life. NCROC recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future payment liabilities of charitable gift annuities was \$90,006 and \$144,204 at December 31, 2014 and 2013, respectively.

Contributions

NCROC accounts for contributions in accordance with the recommendations of the Revenue Recognition Topic of the FASB Accounting Standards Codification. In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted contributions and related gains and investment income are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Donated services

Significant amounts of time from a number of people have been donated to NCROC. The accompanying financial statements do not reflect the value of those donated services, as no reliable basis exists for reasonably determining the amounts involved.

Donated property

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the asset must be used, the contribution is recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Workers' compensation plan

NCROC is self-insured for workers' compensation. Claims are accrued under the plan as the incidents that give rise to them occur. Unpaid claims accruals, including estimates of incurred but not reported claims, are based on the estimated ultimate cost of settlement, including claim settlement expenses, in accordance with NCROC's past experience. As of December 31, 2014, a workers' compensation reserve liability in the amount of \$277,860 was included in other accrued liabilities on the accompanying statements of financial position.

Note 3 – Tax Status

NCROC has been granted an exemption from federal income tax under the Internal Revenue Code, Section 501(c)(3). This Internal Revenue Code section provides for taxation of certain unrelated business income. Management believes that NCROC has had no significant unrelated business income to date. NCROC is exempt from state income tax under similar provisions of the Franchise Tax Board of the State of California. NCROC believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 4 – Assets Whose Use is Limited

Assets whose is use limited are invested as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<u>Funds held by trustee</u>		
<i>2005 Bond funds:</i>		
Cash & money market	\$ 1,078,238	\$ 1,073,417
	<u>1,078,238</u>	<u>1,073,417</u>
<i>2013 Bond funds:</i>		
Cash & money market	<u>5,987,062</u>	<u>5,996,847</u>
	<u>5,987,062</u>	<u>5,996,847</u>
<u>Board designated funds</u>		
Cash & money market	360,593	465,327
Government securities	131,479	119,615
Corporate bonds/notes	1,318,260	655,134
Equities	2,089,471	1,229,179
Mutual funds	<u>198,385</u>	<u>128,933</u>
	<u>4,098,188</u>	<u>2,598,188</u>
<u>Other limited uses</u>		
Cash & money market	1,707,354	1,506,522
Corporate bonds/notes	1,508,780	798,032
Equities	<u>2,140,950</u>	<u>1,185,710</u>
	<u>5,357,084</u>	<u>3,490,264</u>
	\$ <u>16,520,572</u>	\$ <u>13,158,716</u>

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 4 – Assets Whose Use is Limited (continued)

The use of these assets is restricted as follows:

	December 31,	
	2014	2013
<u>Funds held by trustee</u>		
<i>2005 Bond funds:</i>		
Interest funds	\$ 43,354	\$ 44,853
Principal funds	39,584	33,333
Reserve funds	995,300	995,231
	<u>1,078,238</u>	<u>1,073,417</u>
<i>2013 Bond funds:</i>		
Interest funds	632,663	652,405
Principal funds	2,020,131	1,975,096
Reserve funds	3,334,268	3,369,346
	<u>5,987,062</u>	<u>5,996,847</u>
<u>Board designated funds</u>		
Benevolence funds	285,399	285,399
Capital replacement	3,812,789	2,312,789
	<u>4,098,188</u>	<u>2,598,188</u>
<u>Other limited uses</u>		
Resident Council funds	88,669	82,696
Scholarship funds	48,038	45,887
Benevolence funds	677,190	323,139
Entrance fees	607,741	657,575
Entrance fee refund		
escrows	3,459,434	1,845,861
Charitable annuities	476,012	535,106
	<u>5,357,084</u>	<u>3,490,264</u>
	<u>\$ 16,520,572</u>	<u>\$ 13,158,716</u>

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 4 – Assets Whose Use is Limited (continued)

The board designated funds listed above are fully funded and will be used to enhance the lives of NCROC's residents as they provide a safer and more marketable atmosphere.

Expenditures of \$98,425 and \$70,298 were made from the Benevolence funds during the years ended December 31, 2014 and 2013, respectively.

Note 5 – Fair Value of Financial Instruments

NCROC has adopted the requirements of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. This Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. These additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

This Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. It also specifies that transaction costs should not be considered in the determination of fair value. According to this Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

This Topic establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

As required by this Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 5 – Fair Value of Financial Instruments (continued)

The following table shows NCROC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2014 and 2013:

Fair Value Measurements at Reporting Date Using:				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
<u>December 31, 2014</u>				
<u>Assets:</u>				
<u>Assets whose use is limited</u>				
Cash and certificates	\$ 9,133,247	\$ 9,133,247	\$ -	\$ -
Government securities	131,479	131,479	-	-
Corporate bonds	2,827,040	2,827,040	-	-
U.S. equity securities	4,230,421	4,230,421	-	-
Growth funds	198,385	198,385	-	-
Total assets whose use is limited	<u>16,520,572</u>	<u>16,520,572</u>	<u>-</u>	<u>-</u>
<u>Investments</u>				
Cash and certificates	1,638,722	1,638,722	-	-
Government securities	1,165,405	1,165,405	-	-
Corporate bonds	11,090,453	11,090,453	-	-
U.S. equity securities	18,142,803	18,142,803	-	-
Growth funds	1,758,451	1,758,451	-	-
Total investments	<u>33,795,834</u>	<u>33,795,834</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 50,316,406</u>	<u>\$ 50,316,406</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities:</u>				
Charitable gift annuities	<u>\$ 90,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,006</u>

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 5 – Fair Value of Financial Instruments (continued)

Fair Value Measurements at Reporting Date Using:				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
<u>December 31, 2013</u>				
<u>Assets:</u>				
<u>Assets whose use is limited</u>				
Cash and certificates	\$ 9,042,113	\$ 9,042,113	\$ -	\$ -
Government securities	119,615	119,615	-	-
Corporate bonds	1,453,166	1,453,166	-	-
U.S. equity securities	2,414,889	2,414,889	-	-
Growth funds	128,933	128,933	-	-
Total assets whose use is limited	<u>13,158,716</u>	<u>13,158,716</u>	<u>-</u>	<u>-</u>
<u>Investments</u>				
Cash and certificates	2,482,831	2,482,831	-	-
Government securities	1,650,562	1,650,562	-	-
Corporate bonds	9,040,185	9,040,185	-	-
U.S. equity securities	16,961,437	16,961,437	-	-
Growth funds	<u>1,779,143</u>	<u>1,779,143</u>	<u>-</u>	<u>-</u>
Total investments	<u>31,914,158</u>	<u>31,914,158</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>45,072,874</u>	\$ <u>45,072,874</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Liabilities:</u>				
Charitable gift annuities	\$ <u>144,204</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>144,204</u>

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 5 – Fair Value of Financial Instruments (continued)

Liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	<u>Charitable gift annuities</u>
<u>Liabilities:</u>	
January 1, 2013	\$ 202,484
Payments made to annuitants	(58,280)
Net change in present value of annuities	<u>-</u>
December 31, 2013	144,204
Payments made to annuitants	(54,198)
Net change in present value of annuities	<u>-</u>
December 31, 2014	\$ <u>90,006</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. The fair value for Level 3 liabilities is determined by calculating the present value of cash flows expected to be paid out, using various discount rates and life expectancy tables.

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 6 –Pledge Receivable

Pledge receivable consists of the following:

	December 31,	
	2014	2013
Benevolence fund pledge	\$ 335,161	\$ -
Operations fund pledge	<u>425,161</u>	<u>-</u>
	<u>\$ 760,322</u>	<u>\$ -</u>
Receivable in less than one year	\$ 680,322	\$ -
Receivable in one to five years	40,000	-
Receivable in more than five years	<u>40,000</u>	<u>-</u>
	<u>\$ 760,322</u>	<u>\$ -</u>

As of December 31, 2014, there was no allowance for uncollectible pledges, as the pledge was deemed collectible.

Note 7 – Property and Equipment

A summary of property and equipment is as follows:

	December 31,	
	2014	2013
Land	\$ 9,863,452	\$ 9,863,452
Land improvements	12,744,467	12,026,380
Building and improvements	65,312,263	65,068,385
Furniture and equipment	20,093,592	17,545,231
Vehicles	513,935	498,885
Work-in-progress	<u>349,248</u>	<u>892,958</u>
	108,876,957	105,895,291
Less: accumulated depreciation	<u>(43,587,441)</u>	<u>(40,506,117)</u>
	<u>\$ 65,289,516</u>	<u>\$ 65,389,174</u>

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 8 – Intangible Assets

Net intangible assets consist of the following:

	December 31,	
	2014	2013
Initial marketing costs	\$ 5,632,780	\$ 5,632,780
Less: accumulated amortization	<u>(5,618,458)</u>	<u>(5,612,914)</u>
	<u>\$ 14,322</u>	<u>\$ 19,866</u>

Future amortization of these marketing costs is as follows:

Years Ending December 31	
2015	\$ 5,544
2016	5,544
2017	<u>3,234</u>
	<u>\$ 14,322</u>

Note 9 – Deferred Financing Costs

NCROC refinanced its Series 2002 bonds during the year ended December 31, 2013. Costs associated with the issuance of those bonds in the amount of \$1,089,103 were written off during the year ended December 31, 2013. This is included in other expenses on the statement of activities. Costs related to the Series 2013 bonds in the amount of \$1,348,447 were capitalized as of December 31, 2013. Net deferred financing costs consist of the following:

	December 31,	
	2014	2013
Bond issue costs	\$ 2,822,052	\$ 2,822,053
Accumulated amortization	<u>(1,709,772)</u>	<u>(1,529,904)</u>
	<u>\$ 1,112,280</u>	<u>\$ 1,292,149</u>

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 9 – Deferred Financing Costs (continued)

Future amortization of these financing costs is as follows:

Years Ending December 31	
2015	\$ 168,210
2016	156,069
2017	143,547
2018	130,546
2019	117,026
Thereafter	<u>396,882</u>
	<u>\$ 1,112,280</u>

Note 10 – Revenue Bonds

A summary of revenue bonds is as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
California Health Facilities Financing Authority Revenue Bonds, Series 2005, reoffered in 2008: Interest from 2.75% to 5.80% payable semi- annually. Beginning December 1, 2008 principal payments due serially to December 2026	\$ 3,525,000	\$ 3,925,000
Interest from 2.75% to 6% payable semi- annually. Beginning December 1, 2021 principal payments due serially to December 2030	5,800,000	5,800,000
California Health Facilities Financing Authority Revenue Bonds, Series 2013: Interest from 2.0% to 3.5% payable semi- annually. Beginning January 1, 2014 principal payments due serially to January 2026	<u>30,340,000</u>	<u>32,315,000</u>
	39,665,000	42,040,000
Plus: unamortized bond premium	<u>2,266,917</u>	<u>2,740,555</u>
	<u>\$ 41,931,917</u>	<u>\$ 44,780,555</u>

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 10 – Revenue Bonds (continued)

During the year ended December 31, 2013, NCROC refinanced the Series 2002 bonds with the issuance of Series 2013 bonds. The unamortized bond discount related to the Series 2002 bonds in the amount of \$182,507 was written off during the year ended December 31, 2013. The bonds are collateralized by current and future gross revenues of NCROC and all real property. Additionally, NCROC is required to comply with certain debt covenants with respect to additional borrowings, maintenance of insurance, financial reporting and maintenance of certain financial ratios. Also, under the terms of the bonds, NCROC is required to maintain certain deposits with a trustee.

Future principal payments on the bonds are as follows:

	<u>Series 2005</u>	<u>Series 2013</u>	<u>Total</u>
Years Ending December 31,			
2015	\$ 475,000	\$ 2,020,000	\$ 2,495,000
2016	450,000	2,090,000	2,540,000
2017	500,000	2,165,000	2,665,000
2018	475,000	2,240,000	2,715,000
2019	525,000	2,340,000	2,865,000
Thereafter	<u>6,900,000</u>	<u>19,485,000</u>	<u>26,385,000</u>
	<u>\$ 9,325,000</u>	<u>\$ 30,340,000</u>	<u>\$ 39,665,000</u>

Note 11 – Unearned Entrance Fees

	<u>Years Ending December 31,</u>	
	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 47,292,526	\$ 42,621,244
New fees received	13,148,379	10,984,418
Entrance fees refunded	(664,949)	(283,241)
Amortization of fees	<u>(7,175,039)</u>	<u>(6,029,895)</u>
Balance, end of year	<u>\$ 52,600,917</u>	<u>\$ 47,292,526</u>

Entrance fees still within a potentially refundable declining period at December 31, 2014 and 2013, were \$22,491,536 and \$17,821,483, respectively. Based on the past five years actual refunds have averaged \$560,413 per year for the potentially refundable declining period.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	December 31,	
	2014	2013
Benevolence fund	\$ 804,484	\$ 170,139
Scholarship fund	50,931	48,780
Angels in Paradise	508	508
Health Center fund	8,200	8,200
Specific use fund	140,889	10,119
Worship committee	5,700	4,757
	<u>\$ 1,010,712</u>	<u>\$ 242,503</u>

Note 13 – Third Party Payor Revenue

NCROC has agreements to provide care to recipients of the Medicare program. NCROC charges these residents based on normal posted rates, however, reimbursement by the Medicare program is restricted by various reimbursement guidelines. Net revenues include contractual adjustments, which represent the difference between customary charges and actual payments. Net resident revenues from Medicare for the years ended December 31, 2014 and 2013, were \$1,869,459 and \$1,879,677, respectively.

The above Medicare revenues are subject to audit based upon annual cost reports. Upon audit by Medicare intermediaries, there is a possibility of adjustment to revenues.

Note 14 – Investment Income

Investment income consists of the following:

	Years Ended December 31,	
	2014	2013
Interest and dividends	\$ 1,154,937	\$ 960,894
Net realized gains	266,502	579,894
Net unrealized gains	1,379,895	2,505,235
	<u>\$ 2,801,334</u>	<u>\$ 4,046,023</u>

NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 15 – Leases

NCROC leases certain office equipment under operating leases. The terms range from 51 to 60 months, expiring in 2015 and 2016. Lease expense for the years ended December 31, 2014 and 2013 was \$36,520 and \$32,565, respectively. Future minimum lease payments are as follows:

Years Ending December 31	
2015	\$ 29,724
2016	<u>379</u>
	<u>\$ 30,103</u>

NCROC also leases out certain space within the facility to a bank. The current monthly payment is \$1,525 per month and will increase seven percent per year over the term of the lease, which expires in 2017. The future minimum lease payments due to NCROC are as follows:

Years Ending December 31	
2015	\$ 18,519
2016	19,816
2017	<u>17,465</u>
	<u>\$ 55,800</u>

In addition, NCROC rents out other space and equipment to a beauty salon on a month-to-month basis. Payments are set at 6% of gross receipts. Total rental income under both leases for the years ending December 31, 2014 and 2013, was \$22,246 and \$21,457, respectively, and was included in other income on the statements of activities.

Note 16 – Defined Contribution Plans

NCROC sponsors a defined contribution retirement plan available to substantially all employees who are at least 18 years old and have been continuously employed by NCROC for at least six months. Participants can make pre-tax contributions up to certain limits while NCROC provides a matching contribution determined annually by the Board. Total administrative costs incurred by NCROC related to this plan during the years ended December 31, 2014 and 2013, were \$6,804 and \$6,007, respectively.

As of December 2013, NCROC also sponsors a second defined contribution retirement plan available to employees who meet additional eligibility requirements. Participants can make pre-tax contributions up to certain limits while NCROC may make discretionary contributions, as determined by the Board. Total administrative costs incurred by NCROC related to this plan during the years ended December 31, 2014 and 2013, were \$371 and \$0, respectively.

Total contribution expense related to both plans for the years ending December 31, 2014 and 2013, were \$140,151 and \$64,291, respectively.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 17 – Statutory Reserves

NCROC is certified as a Continuing Care Retirement Community (CCRC) by the State of California Department of Social Services. California Code Chapter 10, Article 6, Section 1792 requires CCRCs to establish "liquid reserves" (cash, marketable securities, etc.) equal to, or greater than the annual principal and interest payments on long-term obligations plus 75 days of the CCRC's adjusted operating expenses. NCROC's liquid reserves at December 31, 2014, were sufficient to meet this requirement.

Note 18 – Commitments and Contingencies

NCROC had an agreement with the Haskell Company (Haskell), whereby Haskell will provide management services for NCROC. Effective January 1, 2014, the management agreement with Haskell was terminated by NCROC. Management fees charged were \$448,604 for the year ended December 31, 2013.

While NCROC may be party to legal claims in the ordinary course of business, at December 31, 2014 and 2013, management is unaware of any pending claims for which the ultimate liability would have a material effect on the organization's financial position or results of operations.

Note 19 – Concentrations of Credit Risk

NCROC provides care to residents under the Medicare program. Noridian Healthcare Solutions, LLC is the agency responsible for payment for services to Medicare residents.

NCROC is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as significant repayments for patient services previously billed. NCROC has implemented a voluntary corporate compliance program which includes guidance for all NCROC employees' adherence to applicable laws and regulations. Management is not aware of any actions or potential actions at December 31, 2014.

NCROC also invests its cash with what it believes to be high quality financial institutions and thus limits credit exposure. At various times during the year and at year-end, NCROC had balances in excess of the coverage under Federal Deposit Insurance Corporation insurance.

In addition, NCROC grants credit to private residents, on an unsecured basis, most of who are local residents.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES**

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 20 – Subsequent Events

On March 24, 2015, NCROC terminated its contract with Status Solutions, a provider of situational awareness technologies, due to significant problems experienced with the implementation of new software. As of December 31, 2014, installments paid on the contract totaled \$588,190 and were included in prepaid expenses on the accompanying statements of financial position. NCROC requested a refund of these payments in its notice of termination sent to Status Solutions. At this time, it is unknown if any amount will be refunded to NCROC.

NCROC did not have any other subsequent events through March 30, 2015, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended December 31, 2014.



HANSEN HUNTER & CO. P.C.

Certified Public Accountants

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APR 21 2015

STATEWIDE PROGRAM OFFICE
FOR ADULT AND SENIOR CARE LICENSING

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northern California Retired Officers Community
dba Paradise Valley Estates
Fairfield, California

We have audited the accompanying continuing care reserve report (the "Reports") of the Northern California Retired Officers Community dba Paradise Valley Estates (the "Company"), as of December 31, 2014. The Reports have been prepared by management using the report preparation provisions of California Health and Safety Code Section 1792.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the Reports in accordance with the requirements of California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Reports that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Reports based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of the Company as of December 31, 2014, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.



HANSEN HUNTER & CO. P.C.

Certified Public Accountants

Emphasis of Matter

The accompanying Reports were prepared in accordance with the report preparation provisions of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Reports are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Company and for filing with the California Department of Social Services and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hansen Hunter & Co. P.C.

April 9, 2015

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/16/05	\$400,000	\$538,231		\$938,231
2	04/04/13	\$1,975,000	\$1,285,000		\$3,260,000
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$1,823,231		\$4,198,231

*(Transfer this amount to
Form 5-3, Line 1)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over Next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:					\$0

(Transfer this amount to
Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$4,198,231
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$0
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$4,198,231

PROVIDER: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$28,067,454
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	\$1,823,231	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0	
c.	Depreciation	\$3,146,558	
d.	Amortization	\$185,412	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$1,275,745	
f.	Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$6,430,946
4	Net Operating Expenses		\$21,636,508
5	Divide Line 4 by 365 and enter the result.		\$59,278
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$4,445,850
PROVIDER:		NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY	
COMMUNITY:		PARADISE VALLEY ESTATES	

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E)	\$ 1,275,745
Revenues received from residents	<u>34,344,241</u>
Cash received from residents per direct method cash flow	\$ <u>35,619,986</u>

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
Fiscal Year Ended: DECEMBER 31, 2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2014 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2014 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$4,198,231</u>
[2] Operating Expense Reserve Amount	<u>\$4,445,850</u>
[3] Total Liquid Reserve Amount:	<u>\$8,644,081</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$0</u>	<u>\$7,458,799</u>
[5] Investment Securities	<u>\$0</u>	<u>\$11,593,568</u>
[6] Equity Securities	<u>\$0</u>	<u>\$19,901,254</u>
[7] Unused/Available Lines of Credit	<u>\$0</u>	<u>\$0</u>
[8] Unused/Available Letters of Credit	<u>\$0</u>	<u>\$0</u>
[9] Debt Service Reserve	<u>\$7,065,300</u>	<u>\$0</u>
[10] Other: NCROC Board Designated reserve funds (cash and securities)	<u>\$0</u>	<u>\$4,098,188</u>
<u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11] <u>\$7,065,300</u>	[12] <u>\$43,051,809</u>
Reserve Obligation Amount:	[13] <u>\$4,198,231</u>	[14] <u>\$4,445,850</u>
Surplus/(Deficiency):	[15] <u>\$2,867,069</u>	[16] <u>\$38,605,959</u>

Signature: _____

(Authorized Representative)

Jim Mertz, Chief Executive Officer
(Title)

Date: _____

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that the Organization should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:'

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, the Organization has computed its liquid reserve requirement as of December 31, 2014, the Organizations' most recent fiscal year end, and the reserve is based on audited financial statements for that period.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$2,609 to \$4,793</u>	<u>\$3,711 to \$3,954</u>	<u>\$3,711 to \$3,954</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>2.5%</u>	<u>2.5%</u>	<u>2.5%</u>

☐ Check here if monthly service fees at this community were not increased during the Reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: 1/1/14 for CCRC residents
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase

PROVIDER: NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
COMMUNITY: PARADISE VALLEY ESTATES

FORM 7-1 *Explanations for Adjustments in Monthly Fees*

- Summary of Documents Used in Determining Rate Adjustment

The following documents were used in developing the monthly fee adjustments for 2014:

NCROC Operating Budget for 2014	Internally developed document detailing all revenues and expenses for projected fiscal year 2014. Developed by Paradise Valley Estates Management.
Report on Actuarial Study and Cash Flow Projection for Paradise Valley Estates	Report done in conjunction with the actuarial firm A.V. Powell & Associates. This report contains observations and recommendations about pricing policies to meet reserve requirements that will help ensure the long-term success of Paradise Valley Estates.
Statements of Operations	The current operating results of Paradise Valley Estates during fiscal year 2014. Based on actual performance.

- Details of Rate Adjustment

Unit Type	Configuration	Square Footage	Month Fee @ 1/1/2013	Month Fee @ 1/1/2014
Apt – Traditional	1 Bed 1 Bath	803	\$2,386-2,545	\$2,446-2,609
Apt – Custom	2 Bed 2 Bath	1140	\$2,943-3,141	\$3,017-3,220
Apt – Deluxe	2 Bed 2 Bath	1291	\$3,193-3,406	\$3,273-3,491
Apt – Luxury	2 Bed + Den 2 Bath	1534	\$3,589-3,829	\$3,679-3,925
Apt – Royal	2 Bed + Den 2 Bath	1584	\$3,671-3,918	\$3,763-4,016
Apt – Grande	2 Bed + Den 2 Bath	1846	\$4,105-4,380	\$4,208-4,490
Apt – Grande plus	2 Bed + Den 2 Bath	1870	\$4,144-4,420	\$4,248-4,531
Home – Quadraplex	2 Bed 2 Bath	1340	\$3,274-3,491	\$3,356-3,578
Home – Duplex One	2 Bed + Den 2 Bath	1451	\$3,454-3,686	\$3,540-3,778
Home - Duplex Two	2 Bed + Den 2 Bath	1505	\$3,543-3,779	\$3,632-3,873
Home – Manor	2 Bed + Den 2 Bath	2015	\$4,383-4,676	\$4,493-4,793
Second Person	Variable	Variable	\$1,062-1,135	\$1,089-1,163

FORM 7-1 *Explanations for Adjustments in Monthly Fees*■ Basis of Monthly Care Fee Adjustment*Methodology for Rate Adjustment*

Paradise Valley Estates ("PVE"), a continuing care retirement community located in Fairfield, California, has been in operations since 1997. PVE reached stabilization in 2001. The budget was based on a mix of operating history and projections. Projected occupancy assumptions, an important factor in setting rate adjustments, were developed using actuarially developed assumptions for morbidity and mortality. The scheduled occupancy, along with other individual factors impact the costs that are used to develop operating expense and revenue projections.

PVE must maintain certain financial ratios according to the covenants mandated by its financing arrangements. These ratios include days cash on hand, current ratio, and debt service coverage ratio. These financial obligations also dictate the continuance of financial health for the community and as such play an important role in the revenue and pricing targets that must be maintained.

In projecting the financial needs of the community, many factors are used, including: vacancy turnover, interest rates, ancillary income, resident health care utilization, density rates, operating expenses, facility staffing, employee benefits, contracts, insurance, and inflation.

Summary/Overview Rate Adjustment

After review and preparation of analysis, PVE did increase monthly service fees for its Independent Living Units. PVE did increase daily rates for its Health Care Facility – Laurel Creek Health Center. PVE did increase daily rates for its Assisted Living Facility – Laurel Creek Health Center and Quail Creek.

Paradise Valley Estates

H&SC SECTION 1790(a)(2) and (3) DISCLOSURE

▪ Description of all Reserves Maintained

	December 31,	
	2014	2013
<u>Funds Held by Trustee</u>		
<i>2005 Bond funds:</i>		
Interest funds	\$ 43,354	\$ 44,853
Principal funds	39,584	33,333
Reserve funds	995,300	995,231
	<u>1,078,238</u>	<u>1,073,417</u>
<i>2013 Bond funds:</i>		
Interest funds	632,663	652,405
Principal funds	2,020,131	1,975,096
Reserve funds	3,334,268	3,369,346
	<u>5,987,062</u>	<u>5,996,847</u>
<u>Board Designated Funds</u>		
Benevolence funds	285,399	285,399
Capital replacement	3,812,789	2,312,789
	<u>4,098,188</u>	<u>2,598,188</u>
<u>Other Limited Use Funds</u>		
Resident Council funds	88,669	82,696
Scholarship funds	48,038	45,887
Benevolence funds	677,190	323,139
Entrance fees	607,741	657,575
Entrance fee refund escrows	3,459,434	1,845,861
Charitable annuities	476,012	535,106
	<u>5,357,084</u>	<u>3,490,264</u>
	<u>\$ 16,520,572</u>	<u>\$ 13,158,716</u>

Status: These funds are fully funded.

▪ Funds Accumulated for Specific Projects or Purposes

- The benevolence funds will be used to provide resident assistance
- The capital replacement funds are set aside to future capital additions
- The resident council funds are set aside to be used by the residents
- The scholarship funds are set aside for employee education
- The entrance fee refund escrows are set aside for possible refunds
- Charitable gift annuities fund is set aside for payment of gift annuities

Paradise Valley Estates

H&SC SECTION 1790(a)(2) and (3) DISCLOSURE (continued)

▪ Per Capita Cost of Operations

Total operating Expenses (Form 5-4, Line 1)	\$	28,067,454
Mean number of all residents (Form 1-1 Line 10)		<u>496</u>
	\$	<u><u>56,588</u></u>

PROVIDER NAME: N. California Retired Officers Community

OTHER CCRCs

LOCATION (City, State)

PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES

LOCATION (City, State)

PHONE (with area code)

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

SUBSIDIZED SENIOR HOUSING

LOCATION (City, State)

PHONE (with area code)

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: N. California Retired Officers Community

	2011	2012	2013	2014
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	\$21,165,618	\$22,031,403	\$24,910,591	\$25,659,605
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	\$19,873,414	\$20,003,203	\$22,995,327	\$23,407,141
NET INCOME FROM OPERATIONS	\$1,292,204	\$2,028,200	\$1,915,264	\$2,252,464
LESS INTEREST EXPENSE	\$2,551,886	\$2,457,744	\$1,776,450	\$1,328,343
PLUS CONTRIBUTIONS	\$43,961	\$194,962	\$160,590	\$1,606,734
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	\$0	\$0	\$0	\$0
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-\$1,215,721	-\$234,582	\$299,404	\$2,530,855
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	\$6,876,730	\$4,950,239	\$11,925,996	\$12,275,066

DESCRIPTION OF SECURED DEBT (as of most recent fiscal year end)

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CAL Mortgage	\$9,325,000	4.38%	12/16/05	12/16/30	25 years
CAL Mortgage	\$30,340,000	2.00%	04/04/13	01/01/26	12 years

FINANCIAL RATIOS (see next page for ratio formulas)

	2013 CCAC Medians 50 th Percentile (optional)	2012	2013	2014
DEBT TO ASSET RATIO		40	34	29
OPERATING RATIO		112	109	104
DEBT SERVICE COVERAGE RATIO		1.25	2.32	3.09
DAYS CASH ON HAND RATIO		510	579	624

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2011	%	2012	%	2013	%	2014
STUDIO	N/A	0	N/A	0	N/A	0	N/A
ONE BEDROOM	\$2,336	2.7	\$2,400	2.8	\$2,466	2.5	\$2,528
TWO BEDROOM	\$3,531	2.8	\$3,629	2.7	\$3,728	2.5	\$3,822
COTTAGE/HOUSE	\$3,586	2.8	\$3,685	2.7	\$3,786	2.5	\$3,880
ASSISTED LIVING	\$3,544	2.6	\$3,653	2.5	\$3,726	2.9	\$3,833
SKILLED NURSING	\$3,544	2.6	\$3,653	2.5	\$3,726	2.9	\$3,833
SPECIAL CARE	\$3,544	2.6	\$3,653	2.5	\$3,726	2.9	\$3,833

COMMENTS FROM PROVIDER: > Second person fees for CCRC: 2011 - \$1,041 + 2.8%; 2012 - \$1,070 + 2.75%; 2013 - \$1,099 + 2.7%;

> 2014 - \$1,126 + 2.5%

>

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{Depreciation Expense} \\ - \text{Amortization Expense} \end{array}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{Interest, Depreciation, and Amortization Expenses} \\ \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{Unrestricted Non-Current Cash \& Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Date Prepared: 4/9/2015

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

KEY INDICATORS REPORT
NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY
dba PARADISE VALLEY ESTATES

RECEIVED
Kim M. [Signature]
Chief Executive Officer Signature
STATEWIDE PROGRAM OFFICE
FIDUCIARY AND SENIOR CARE PLANNING
TREASURY

	Projected							Forecast			Indicator
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	88	86	84	82	82	86	89	92	95	97	-
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	-4%	-3%	-2%	-5%	-10%	-2%	2%	2.5%	3%	3.5%	↑
3. Net Operating Margin - Adjusted (%)	7%	24%	25%	17%	30%	33%	23%	27%	29%	30%	↑
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments (\$000)	25,592	27,179	28,662	29,126	35,280	38,954	41,000	45,000	49,000	53,000	↑
5. Days Cash on Hand (Unrestricted)	446	491	499	510	579	624	705	705	705	705	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees (\$000)	6,503	7,163	6,851	6,856	6,030	7,175	6,500	6,750	7,000	7,250	N/A
7. Net Annual E/F proceeds (\$000)	2,089	6,629	6,877	4,950	11,926	12,275	11,550	10,500	9,500	8,500	N/A
8. Unrestricted Net Assets (\$000)	1,220	5,725	8,407	11,845	14,959	20,565	18,000	18,000	18,000	18,000	N/A
9. Annual Capital Asset Expenditure (\$000)	860	2,233	3,298	1,404	2,729	3,082	3,249	3,249	3,249	3,249	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	(.11)	.03	.29	.18	(.12)	.45	.28	.33	.40	.45	↑
11. Annual Debt Service Coverage (x)	.33	1.45	1.74	1.25	2.32	3.09	2.56	2.50	2.50	2.50	↑
12. Annual Debt Service/Revenue (%)	.15	.16	.17	.16	.13	.11	.13	.15	.18	.20	↓
13. Average Annual Effective Interest Rate (%)	5.21%	5.27%	5.30%	5.35%	5.78%	4.60%	2.42%	3.31%	4.10%	3.35%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	50%	56%	62%	66%	89%	105%	111%	120%	127%	135%	↑
15. Average Age of Facility (years)	10.8	12.3	12.4	13.0	13.9	13.9	13.0	12.0	11.5	11.0	↓

REFUND RESERVE REPORT FOR
REFUNDABLE CONTRACTS

RECEIVED
APR 21 2015

STATEWIDE PROGRAM OFFICE
FOR ADULT AND SENIOR CARE LICENSING

FORM 9-1
CALCULATION OF REFUND RESERVE AMOUNT

[1] Resident Name	[2] Sex	[3] Entrance Fee	[4] Refund %	[5] Refund Amount (promised after 6 years)	[6] Age	[7] Life Exp.	[8] Present Value Multiplier	[9] Present Value of Refund
Coghill, W.	F	132,416	50	66,208	93	3.862	6%	52,866
Jacobs, H.	F	261,450	50	130,725	88	5.200	6%	96,554
Sanders, B.	F	193,150	50	96,575	93	3.862	6%	77,114
Haddock, S.	F	191,520	50	95,760	88	5.613	6%	69,047
Weeks, D.	F	293,014	50	146,507	86	6.494	6%	100,351
Williamson, T.	F	182,800	50	91,400	79	10.184	6%	50,493
Cruse/Rivard	F	182,800	50	91,400	64	19.545	6%	29,265
Schaechter, W.	M	230,250	50	115,125	79	8.159	6%	71,565
Williams, E.	M	203,756	50	101,878	85	5.475	6%	74,051
Biederman, J.	F	559,018	95	531,067	92	4.175	6%	416,387
Eyres, W.	F	253,772	95	241,083	97	2.914	6%	203,435
Fei, R.	M	643,687	95	611,502	91	3.670	6%	493,771
Fierzheim, H.A.	F	682,889	95	648,744	87	6.494	6%	444,362
Hennings, E.	F	416,758	95	395,920	96	3.109	6%	330,317
Nelson, P.	F	542,716	95	515,580	82	7.952	6%	324,387
Smith, Allan	M	611,990	95	581,391	84	5.854	6%	413,359
Coor, L.	F	364,705	95	346,470	84	7.438	6%	224,616
Frantz, J.	F	692,075	95	657,471	83	7.952	6%	413,661
Martin, Jerry	F	557,840	95	529,948	82	8.501	6%	322,930
TOTAL AMOUNT REQUIRED FOR RESERVE:								4,208,531

Total Required Reserve:	4,208,531
Initial 2012 Funding (3% Minimum Required per agreement with DSS):	350,000
Subsequent Funding 2013:	1,000,000
Subsequent Funding 2014:	1,000,000
Subsequent Funding 2015:	
Subsequent Funding 2016:	
Subsequent 2017 Funding (to attain 100% of Requirement per agreement with DSS):	
Total Required Escrow Balance for Refundable Contracts as of 12/31/2014:	2,350,000
Total Escrow Balance for Refundable Contracts as of 12/31/2014:	3,459,434
Unfunded Reserves as of 12/31/2014:	749,097

Provider: Northern California Retired Officers Community
Community: Paradise Valley Estates